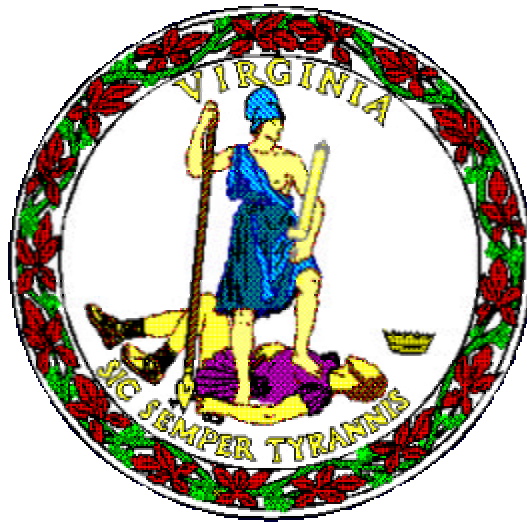


# **Commonwealth of Virginia**



## **Debt Capacity Advisory Committee**

**Report to the Governor and General Assembly**

**December 21, 2001**



# COMMONWEALTH OF VIRGINIA

*Office of the Governor*

James S. Gilmore, III  
Governor

John W. Forbes  
Secretary of Finance

December 21, 2001

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol, 3rd Floor  
Richmond, Virginia 23219

The Honorable Bruce F. Jamerson  
Clerk of the House of Delegates  
Virginia House of Delegates  
State Capitol  
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar  
Clerk of the Senate  
Senate of Virginia  
State Capitol  
Richmond, Virginia 23219

Dear Governor Gilmore, Mr. Jamerson, and Ms. Schaar:

The Debt Capacity Advisory Committee (the "Committee") was established by Executive Order No. 38 in 1991 and was codified by the 1994 General Assembly (Chapter 27, Article 5, Sections 2.2-2712 through 2.2-2714). The Committee is required to annually review the size and condition of the Commonwealth's tax-supported debt and submit to you an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next two years. In addition, the Committee is required to review annually the Commonwealth's moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. We are pleased to present our eleventh annual report.

## **The Debt Capacity Model**

In this report, we reaffirm our use of the Debt Capacity Model as the means of calculating the Commonwealth's tax-supported debt affordability. The Model calculates the maximum amount of incremental debt that may prudently be issued by the Commonwealth over the next ten years and features an additional two years of debt issuance capacity as a reserve beyond the end of the ten-year issuance period. The reserve is used as a hedge against variations in other assumptions

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used in the model, such as interest rates and revenue growth. The Model uses the ratio of tax-supported debt service as a percentage of revenues as its base calculation. We reaffirm that the ratio of debt service as a percentage of revenues should be no greater than 5%. In our view, 5% is the maximum ratio consistent with maintaining the current premier credit ratings on the Commonwealth's debt. The Debt Capacity Model is attached as Exhibit A.

The concept of debt capacity management and the 5% maximum ratio were introduced in *An Assessment of Debt Management in Virginia*, a report issued by the Secretary of Finance in December 1990. The report also recommended the creation of the Debt Capacity Advisory Committee. The Debt Capacity Advisory Committee adopted the 5% maximum measure in 1991 and has fully endorsed this ratio every year since that time. The credit ratings assigned to the Commonwealth's obligations are, in part, based upon its sound debt management policies. In a report issued in October of this year, the rating agency Fitch, Inc. specifically referenced the Commonwealth's conservative financial and debt management policies in determining its ratings, as follows:

"Virginia's outstanding general obligation bonds 'AAA' rating reflects its substantial resources, conservative approach to financial operations, and careful attention to the level and security of its debt obligations." (*Fitch, Inc., New Issue Ratings Report, October 16, 2001*)

In 2001, the Committee reviewed the criteria that govern which liabilities are included in the Model. Certain liabilities classified for accounting purposes as tax-supported debt and shown as such in the Commonwealth's Comprehensive Annual Financial Report (CAFR) do not meet the Committee's criteria for inclusion in the Model. These items include compensated absences, pension liabilities and other liabilities as shown on pages 5 and 8 of Exhibit C. The criteria are included along with other assumptions and variables included in the Model on pages 2 through 4 of Exhibit A. The Model incorporates the official revenue estimates contained in the Governor's proposed budget submitted December 19, 2001.

### **Moral Obligation or Contingent Liability Debt and Other Findings**

The Committee also reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reconfirmed that the Commonwealth is not unique in its use of moral obligation debt, as a number of other state

issuers utilize the moral obligation pledge. The Committee reviewed the types of programs, statutory caps, outstanding amounts, and other financial data for certain other states that utilize moral obligation bond programs and compared these to Commonwealth issuers. The three issuers in the Commonwealth that use the moral obligation pledge are the Virginia Housing

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Development Authority, the Virginia Public School Authority and the Virginia Resources Authority. Each of these issuers' outstanding moral obligation debt is currently within its statutory limit.

During the 2001 Session, the Virginia Resources Authority requested and was granted additional moral obligation debt authorization, raising its statutory limit to \$900 million from \$550 million. It also received authorization to provide financing for public safety and brownfields remediation projects. The Authority will also continue to issue moral obligation bonds under its current programs to provide low-cost financing to localities for water, wastewater, solid waste, storm water, and airport projects.

The Virginia Public School Authority initiated a new primary issuance program in 1997 and does not expect to issue additional moral obligation bonds. The Virginia Housing Development Authority established a new multi-family housing program in 1999 that does not carry the Commonwealth's moral obligation pledge and it expects to issue all of its multi-family housing bonds under the new indenture.

The Virginia Public School Authority is the only issuer of non-tax-supported debt that utilizes a sum sufficient appropriation as an additional credit enhancement. This represents a contingent liability for the Commonwealth. The Virginia Public School Authority issued its first series of Equipment Technology Notes utilizing the sum-sufficient appropriation in 2001, receiving a "double A plus" rating from each of the three major rating agencies.

Information on the amount of outstanding debt, statutory limits and debt ratings for moral obligation debt, and other debt for which the Commonwealth has a contingent or limited liability is shown in Exhibit D. Sensitivity analyses are also included, which demonstrate the impact on tax-supported debt capacity resulting from the conversion of moral obligation debt to tax-supported debt. The sensitivity analyses are prepared using worst case scenarios showing the impact of the conversion of all moral obligation debt. If any such debt were ever converted, however, it would occur on an issue by issue basis. Conversion would occur if the General Assembly appropriated funds to replenish a debt service reserve fund shortfall if requested by a moral obligation issuer. For example, an issuer would request that the Governor and General Assembly replenish the debt service reserve fund if, in the event of a default on the underlying revenue stream, the issuer was forced to draw on the debt service reserve fund to pay debt service. Given the structure of the Commonwealth's moral obligation bond programs, such an occurrence is unlikely.

The Committee also reviewed the current and historical debt position of the Commonwealth. Part of this review included other authority debt not supported by taxes. Data included in Exhibit C summarizes information considered by the Committee.

## **Review of the Treatment of 9(c) General Obligation Bond Revenues and Debt Service**

The Committee reviewed the treatment of 9(c) General Obligation bond revenues in the model and determined that the current treatment does not properly offset 9(c) revenues and 9(c) debt service as directed by the Committee in 1995. The Committee approved a technical correction to the model so that 9(c) revenues and 9(c) debt service are offset for the purposes of the DCAC model provided the projects remain self-supporting. The Committee recognizes that this change increases debt capacity by \$44.4 million per year to \$628 million.

## **Review of Lottery Transfers**

The Committee reviewed the treatment of Lottery transfers as a component of the model and determined that the current treatment is appropriate and consistent with the rating agencies' treatment of the components of a state's overall revenue system. The Committee discussed the inclusion and noted the constitutional provisions restricting the uses of the Lottery funds which thereby restricts their availability as a revenue source for debt service. Removing the Lottery transfers from the revenue component of the model would have decreased debt capacity by \$16.7 million per year.

## **Recommendations**

Historically, Virginia has followed a capital budgeting and approval process in which projects and the financing thereof have been approved during the even-year General Assembly Session during which a new biennial budget is adopted. The budget is amended, if necessary, during the odd- or second year. The Committee therefore has provided the following amounts for the upcoming biennium since this report coincides with the 2002 General Assembly Session during which the 2003-2004 budget will be adopted.

The Committee notes that the period of time between the inception of capital projects and its permanent financing can vary greatly, usually spanning several years. Therefore the Committee has determined that consideration should be given to the projected issuance schedule when making its recommendations.

### ***1. Model Results – Tax-Supported Debt Authorization and Issuance:***

The Committee reports that according to the model solution \$628 million of tax-supported debt may be issued in each year of the biennium. Consistent with past reports, the Committee believes that \$628 million to \$1.256 billion of tax-supported debt may prudently be authorized by

the 2002 Session of the General Assembly. Any authorization in excess of the stated range should acknowledge that issuance is limited to \$628 million per year.

These maximum authorization recommendations are above and beyond the tax-supported debt currently authorized but unissued, most of which is assumed to be issued at some point in the future. The decrease in debt issuance capacity below the amounts recommended in the 2000 Report is mainly attributable to the decline in the growth of revenues due to the national economic slowdown and the events of September 11, 2001.

The Committee notes that the average interest rates used in the Debt Capacity Model have decreased by approximately fifteen basis points, or slightly above one-tenth percentage point, since the December 2000 Report. The Bond Buyer 11 Index is the benchmark index used in the Model. The Model uses the average of the Bond Buyer 11 Index for the last eight quarters as its base interest rate for authorized but unissued general obligation bonds and adds an additional fifty basis points for non-general obligation bonds. The Committee notes that the effect of interest rate movements over any one year is mitigated since the base rate is an average of the last eight quarters.

The Committee recognizes that it cannot predict the future level of interest rates or the pace of revenue growth and recognizes the sensitivity of the Model results to such factors. Attached as Exhibit B are sensitivity analyses that demonstrate the impact on the Model of changes in external factors such as interest rates and revenues, or internal factors such as excess capacity. The Model calculates the maximum amount of tax-supported debt that could be prudently authorized and issued based on the assumptions incorporated in the Model. It does not constitute a recommendation of the Committee that such amount actually be authorized. In the opinion of the Committee, debt issuance in excess of the amounts recommended above could result in the Commonwealth exceeding the maximum ratio of 5%. Exhibit C contains narrative and tables which summarize information regarding the Committee and tax-supported debt.

The Committee makes no recommendations as to which projects, if any, should be chosen for debt financing or how they should be prioritized. These decisions are most appropriately made through the budgetary and legislative processes.

## *2. Consider Eliminating Authorizations Not Likely to be Issued:*

The Committee endorses the efforts of the General Assembly and the Governor to continue to rescind authorizations for projects that are not likely to be used. The Committee recommends that unnecessary authorizations continue to be identified and rescinded, as appropriate.

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*3. Alternative Financing of State Projects:*

We continue to support the use of traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority for financing state projects as opposed to capital lease-supported transactions. Certain state projects have been financed in the past using local and special purpose authorities, such as industrial development authorities or redevelopment and regional housing authorities. Due to the structure of such financings, they often result in higher financing costs than if the financing had been completed through an established state program. In such cases, the Commonwealth has limited control of the process, however such bonds are normally considered tax-supported debt and are included in the Model because the Commonwealth is responsible for debt service payments over the life of the bonds.

*4. Moral Obligation and Contingent Liability Debt:*

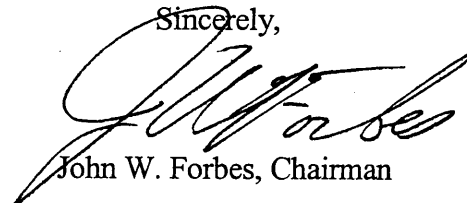
We make no specific recommendation on the programs or levels of the statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

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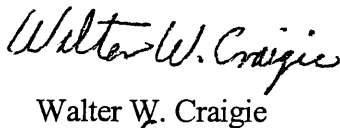
## Conclusion

We trust this report and our recommendations are useful as we move forward together into the 2002 Session of the General Assembly. It has been our pleasure to advise you on including the concepts of debt affordability and debt capacity management into the Commonwealth's debt management programs. The Commonwealth of Virginia has become an acknowledged leader among states in the area of debt capacity management, and is repeatedly held out as an example of how the process should work.

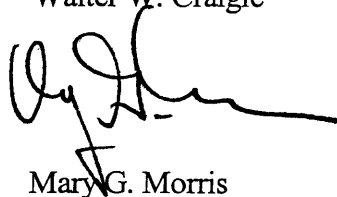
Sincerely,



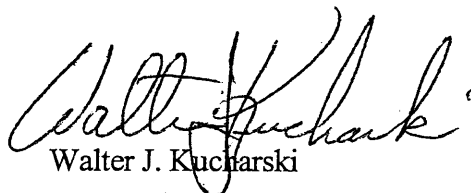
John W. Forbes, Chairman



Walter W. Craigie



Mary G. Morris



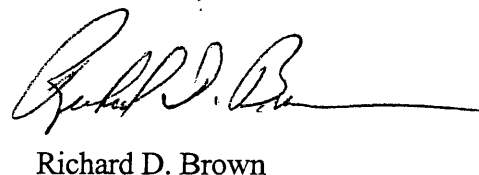
Walter J. Kucharski



David T. Ralston, Jr.



Philip A. Leone



Richard D. Brown

Attachments



# **Exhibit A**

## **The Debt Capacity Model**

## **Commonwealth Debt**

- Rating agencies view control of tax-supported debt as one of four key factors affecting credit quality.
  - control of debt burden
  - economic vitality and diversity
  - fiscal performance and flexibility
  - administrative capabilities of government
- Virginia's goal is to maintain AAA/Aaa/AAA ratings for General Obligation debt.
  - Commonwealth's "AAA" rating reaffirmed by Fitch, Moody's and Standard & Poor's (October 2001)
- Definition of tax-supported debt.
  - debt service payments made or ultimately pledged to be made from general government funds
  - corresponds with rating agency definition
  - contrast with debt not supported by taxes such as moral obligation debt

## **Debt Capacity Model**

### **General Observations and Assumptions**

- Virginia's Debt Affordability Model:
  - Debt Affordability Measure  
$$\frac{\text{Tax-Supported Debt Service}}{\text{Revenues}} \leq 5\%$$
  - 10-year issuance period
  - Incorporates currently authorized but unissued debt
  - Blended revenue growth rate
  - Term and structure:
    - 20-year bonds
    - Assumed interest rate of 5.37% for 9(b) and 9(c) General Obligation debt. 9(d) debt has an assumed interest rate of 5.87%.
    - Level debt service (except 9(b) debt)
    - 9(b) General Obligation debt is amortized on a level principal basis
  - Actual debt service of all issued tax-supported debt, including capital leases, installment purchases and regional jail reimbursement agreements (see page A-3 for liability inclusion criteria).
  - Blended Revenues:
    - General fund revenues and state revenues in Transportation Trust Fund added together, plus transfers of ABC and Lottery profits, plus revenue equal to debt service on outstanding self-supporting 9(c) debt. For purposes of the model, 9(c) revenues and debt service of self supporting projects are offset and have a neutral impact on debt capacity.
  - Interest Rates:
    - Assumed issuance of authorized but unissued tax-supported debt and associated debt service, computed using estimated interest rates based on the average of the last eight quarters of The Bond Buyer 11 Bond Index for general obligation debt 9(b) and 9(c), and a 50 basis point higher rate for 9(d) debt.

## **Debt Capacity Model**

### **General Observations and Assumptions**

#### **Debt Capacity Advisory Committee**

#### **Liabilities included in the Debt Capacity Model**

- 1) Outstanding tax-supported debt as determined by the DCAC.
  - General obligation bonds (Section 9(a), 9(b), and 9(c)).
  - Obligations issued by the Commonwealth Transportation Board or Virginia Port Authority that are secured, in whole or in part, by the Transportation Trust Fund.
  - Obligations issued by the Virginia Public Building Authority and the Virginia College Building Authority secured, in whole or in part, by general fund appropriations.
  - Obligations payable under regional jail Reimbursement Agreements between the Treasury Board and localities, regional jail authorities or other combination of localities.
  - Capital leases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
  - Installment purchases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
  - Obligations for which the debt service is paid from amounts representing payments received from the Commonwealth on a capital lease.
- 2) Authorized but unissued tax-supported debt as determined by the DCAC.
  - The issuance of obligations to fund a project(s) must be authorized by an Act of the General Assembly (either an Act specifically authorizing the issuance of debt, or Appropriation Act language) with no contingency for subsequent General Assembly approval. If obligations are authorized but will require further action by the General Assembly before they can be issued, then such obligations will not be included in the Model. The practical application of this rule will be that if debt can be issued for a project without any further action on the part of the General Assembly, such debt will be considered as authorized for issuance.

## **Debt Capacity Model**

### **General Observations and Assumptions**

#### **Debt Capacity Advisory Committee**

#### **Liabilities included in the Debt Capacity Model**

- 3) That portion of outstanding moral obligation debt for which the underlying debt service reserve fund has been utilized to pay all or a portion of debt service and for which the General Assembly has appropriated funds to replenish all or a portion of such debt service reserve fund as requested by the moral obligation issuer.
- In the event that a moral obligation issuer has experienced an event of a default on the underlying revenue stream and such issuer has been forced to draw on the debt service reserve fund to pay debt service, the Committee shall immediately meet and review the circumstances surrounding such event and report its findings to the Governor and the General Assembly.
  - In the event this section is invoked, the Committee's Report to the Governor and General Assembly shall include, one Model scenario showing annual tax-supported debt capacity without inclusion of the moral obligation debt (or portion thereof) in question.
  - Inclusion of the debt in the Model is in no way intended to bind the Governor or General Assembly to make future appropriations to replenish future draws on such debt service reserve fund(s).
  - The subject debt will be removed from the Model once the General Assembly has not appropriated funds to replenish such debt service reserve fund(s).

## Debt Capacity Model

### Currently Authorized Tax-Supported Debt Issuance Assumptions\* (Dollars in Millions)

|   | 9(c)<br><u>Higher<br/>Education</u> | VPBA<br><u>Projects</u> | VPBA<br><u>Jails</u> | VCBA<br><u>21st Century<br/>Equipment</u> | VCBA<br><u>21st Century<br/>Projects</u> | 9(d)<br><u>Transportation</u> | <u>Biotech</u> | <u>Other<br/>Long-Term<br/>Obligations</u> | <u>Total</u> |
|---|-------------------------------------|-------------------------|----------------------|---|--|-------------------------------|----------------|--|--------------|
| Authorized &<br>Unissued as of<br>December 31, 2001 | 66.1                                | 44.1                    | 7.8                  | 49.8                                      | 0.0                                      | 171.4                         | 0.0            | 0.0  | 339.3        |
| Assumed Issued <sup>(1)</sup> :                     |                                     |                         |                      |   |  |                               |                |  |              |
| FY 2002   | 0.0                                 | 0.0                     | 0.0                  | 0.0                                       | 0.0                                      | 0.0                           | 0.0            | 0.0  | 0.0          |
| FY 2003   | 33.1                                | 0.0                     | 0.0                  | 49.8                                      | 0.0                                      | 40.2                          | 0.0            | 0.0  | 123.2        |
| FY 2004   | 33.0                                | 23.8                    | 7.8                  | 0.0                                       | 0.0                                      | 60.0                          | 0.0            | 0.0  | 124.6        |
| FY 2005-2010  | <u>0.0</u>                          | <u>0.0</u>              | <u>0.0</u>           | <u>0.0</u>                                | <u>0.0</u>                               | <u>71.2</u>                   | <u>0.0</u>     | <u>0.0</u>                                 | <u>71.2</u>  |
| Total   | 66.1                                | 23.8                    | 7.8                  | 49.8                                      | 0.0                                      | 171.4                         | 0.0            | 0.0  | 319.0        |
| Authorized Debt                                     |                                     |                         |                      |   |  |                               |                |  |              |
| Assumed Unissued                                    | 0.0                                 | 20.3 <sup>(2)</sup>     | 0.0                  | 0.0                                       | 0.0                                      | 0.0                           | 0.0            | 0.0  | 20.3         |

<sup>(1)</sup> Debt is assumed issued when the first full year of debt service is paid.

<sup>(2)</sup> Projects to be funded with refunded reserve fund proceeds and excess interest earnings.

\* Numbers may not add to totals due to rounding.

# Debt Capacity Model

## Alternate 9(c) Revenues DEBT CAPACITY MODEL

(Dollars in Millions)

December 19, 2001

*Debt Capacity Maximum Ratio*

Debt Service as a % of Revenue =

**5.0%**

|             | [1]       | [2]  | [3]                                      | [4]   | [5]  | [6]  | [7]                                       | [8]   | [9]  | [10]  | [11]   |
|-------------|-----------|--|--|---|--|--|---|---|--|---|--|
|             |           | Base<br>Capacity<br>to Pay<br>Debt Service | 9(c) Revenue<br>Equal to Debt<br>Service | Total<br>Capacity<br>to Pay<br>Debt Service | Annual<br>Payments for<br>Debt Service<br>on Debt Issued | Annual<br>Payments for<br>Debt Service<br>on All Planned<br>Debt Issuances | Net<br>Capacity<br>to Pay<br>Debt Service | Amount of<br>Additional<br>Debt that may<br>Be Issued | Debt Service on<br>the Amount of<br>Additional<br>Debt that may<br>Be Issued | Remaining<br>Capacity<br>to Pay<br>Debt Service | Total<br>Debt Service<br>as a % of<br>Revenues |
| Fiscal Year | Revenues  |  |  |   |  |  |   |   |  |   |  |
| Actual 1996 | 8,203.92  | 410.20                                     | N/A                                      | 410.20                                      | 254.90   | N/A  | 155.30                                    | N/A   | N/A  | 155.30  | 3.11%  |
| Actual 1997 | 9,088.43  | 454.42                                     | N/A                                      | 454.42                                      | 274.25   | N/A  | 180.17                                    | N/A   | N/A  | 180.17  | 3.02%  |
| Actual 1998 | 9,753.64  | 487.68                                     | N/A                                      | 487.68                                      | 317.53   | N/A  | 170.15                                    | N/A   | N/A  | 170.15  | 3.26%  |
| Actual 1999 | 10,728.92 | 536.45                                     | N/A                                      | 536.45                                      | 325.48   | N/A  | 210.96                                    | N/A   | N/A  | 210.96  | 3.03%  |
| Actual 2000 | 11,875.81 | 593.79                                     | N/A                                      | 593.79                                      | 344.43   | N/A  | 249.36                                    | N/A   | N/A  | 249.36  | 2.90%  |
| Actual 2001 | 12,271.52 | 613.58                                     | N/A                                      | 613.58                                      | 369.81   | N/A  | 243.77                                    | N/A   | N/A  | 243.77  | 3.01%  |
| 2002        | 12,270.56 | 613.53                                     | 70.03                                    | 683.55                                      | 499.34   | 52.03  | 132.18                                    | \$0.00  | 0.000  | 132.18  | 4.47%  |
| 2003        | 12,598.11 | 629.91                                     | 71.21                                    | 701.11                                      | 469.52   | 76.08  | 155.51                                    | 628.31  | 55.725   | 99.79   | 4.75%  |
| 2004        | 13,270.50 | 663.53                                     | 72.25                                    | 735.77                                      | 447.08   | 81.10  | 207.60                                    | 628.31  | 111.449  | 96.15   | 4.79%  |
| 2005        | 13,856.86 | 692.84                                     | 66.31                                    | 759.15                                      | 407.67   | 81.10  | 270.38                                    | 628.31  | 167.174  | 103.20  | 4.71%  |
| 2006        | 14,505.16 | 725.26                                     | 63.23                                    | 788.48                                      | 354.85   | 85.90  | 347.73                                    | 628.31  | 222.898  | 124.83  | 4.56%  |
| 2007        | 15,258.14 | 762.91                                     | 61.16                                    | 824.07                                      | 351.14   | 72.11  | 400.82                                    | 628.31  | 278.623  | 122.19  | 4.58%  |
| 2008        | 16,044.21 | 802.21                                     | 60.68                                    | 862.89                                      | 348.95   | 72.11  | 441.83                                    | 628.31  | 334.348  | 107.49  | 4.69%  |
| 2009        | 16,904.26 | 845.21                                     | 54.79                                    | 900.00                                      | 345.64   | 72.11  | 482.25                                    | 628.31  | 390.072  | 92.18   | 4.76%  |
| 2010        | 17,811.40 | 890.57                                     | 49.27                                    | 939.84                                      | 322.14   | 72.11  | 545.59                                    | 628.31  | 445.797  | 99.80   | 4.70%  |
| 2011        | 18,768.22 | 938.41                                     | 44.81                                    | 983.22                                      | 309.28   | 72.11  | 601.83                                    | 628.31  | 501.521  | 100.30  | 4.69%  |

|                     |          |                     |            |
|---------------------|----------|---------------------|------------|
| 10 Year<br>Average: | \$565.48 | Excess<br>Capacity: | \$1,130.95 |
|---------------------|----------|---------------------|------------|

[1] Revenues include the actual fiscal year revenues per the Annual Reports of the Comptroller (1996-2000); the Preliminary Report for FY 2001, and the December and Economy.com Forecast of General Fund, transfers from the Virginia Lottery, the Alcoholic Beverage Control Board, dated December 19, 2001; and, certain revenues from the Transportation Trust Fund official revenue forecasts as of December 19, 2001.

[2] Base Capacity to Pay Debt Service equals 5% of the Revenues listed in Column [1].

[3] Self-supporting 9(c) Revenue Equal to 9(c) Debt Service.

[4] Total Capacity to Pay Debt Service equals Column [2] plus Column [3].

[5] Equals the annual payments of principal and interest for all currently outstanding tax-supported debt issued through December 31, 2001-

[6] Equals the annual estimated payments of principal and interest for all currently authorized tax-supported debt planned for issuance within the next ten fiscal years. See Assumed Issuances of Currently Authorized But Unissued Tax-Supported Debt. Also includes debt service for long-term capital leases, installment purchase obligations and regional jail reimbursements.

[7] Equals the amount of revenue available to pay debt service after principal and interest on all currently outstanding and all planned issuances of tax-supported debt has been paid. Column [4] - Column [5] - Column [6].

[8] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

[9] Equal to annual amount of principal and interest to be paid on Column [8].

[10] Equals Column [7] minus Column [9].

[11] Equals the sum of all debt service payments divided by Revenues. (Column [5] + Column [6] + Column [9]) / (Column [1] + Column [3]).

# Debt Capacity Model

## DEBT CAPACITY MODEL REVENUE DATA

December 19, 2001

(Dollars In Millions)

| Fiscal Year | General Fund              | Transportation Trust Fund | General Fund Growth   | Transportation Trust Fund Growth | ABC Profit Transfer   | Lottery Profit Transfer | Revenues Sufficient to Pay 9(c) Debt Service Outstanding | Revenues Sufficient to Pay New 9(c) Debt Service | Total 9(c) Revenues Sufficient to Pay 9(c) Debt Service | Total Revenue <sup>(14)</sup> | Blended Revenue Growth Rate <sup>(15)</sup> |
|-------------|---------------------------|---------------------------|-----------------------|----------------------------------|-----------------------|-------------------------|--|--|---|-------------------------------|---|
| Actual 1992 | 5,623.21 <sup>(1)</sup>   | 425.37 <sup>(12)</sup>    | 1.27% <sup>(1)</sup>  | 1.24% <sup>(12)</sup>            | 23.73 <sup>(1)</sup>  | 290.80 <sup>(1)</sup>   | N/A  | N/A  | N/A   | 6,363.12                      | 1.22%                                       |
| Actual 1993 | 6,134.57 <sup>(2)</sup>   | 450.72 <sup>(12)</sup>    | 9.09% <sup>(2)</sup>  | 5.96% <sup>(12)</sup>            | 26.82 <sup>(2)</sup>  | 297.00 <sup>(2)</sup>   | N/A  | N/A  | N/A   | 6,909.11                      | 8.58%                                       |
| Actual 1994 | 6,503.76 <sup>(3)</sup>   | 494.30 <sup>(12)</sup>    | 6.02% <sup>(3)</sup>  | 9.67% <sup>(12)</sup>            | 20.73 <sup>(3)</sup>  | 303.50 <sup>(3)</sup>   | N/A  | N/A  | N/A   | 7,322.29                      | 5.98%                                       |
| Actual 1995 | 6,881.12 <sup>(4)</sup>   | 546.50 <sup>(12)</sup>    | 5.80% <sup>(4)</sup>  | 10.56% <sup>(12)</sup>           | 19.01 <sup>(4)</sup>  | 311.60 <sup>(4)</sup>   | N/A  | N/A  | N/A   | 7,758.23                      | 5.95%                                       |
| Actual 1996 | 7,283.56 <sup>(5)</sup>   | 561.76 <sup>(12)</sup>    | 5.85% <sup>(5)</sup>  | 2.79% <sup>(12)</sup>            | 26.00 <sup>(5)</sup>  | 332.60 <sup>(5)</sup>   | N/A  | N/A  | N/A   | 8,203.92                      | 5.74%                                       |
| Actual 1997 | 8,133.55 <sup>(6)</sup>   | 588.08 <sup>(12)</sup>    | 11.67% <sup>(6)</sup> | 4.69% <sup>(12)</sup>            | 23.80 <sup>(6)</sup>  | 343.00 <sup>(6)</sup>   | N/A  | N/A  | N/A   | 9,088.43                      | 10.78%                                      |
| Actual 1998 | 8,811.04 <sup>(7)</sup>   | 603.00 <sup>(12)</sup>    | 8.33% <sup>(7)</sup>  | 2.54% <sup>(12)</sup>            | 20.70 <sup>(7)</sup>  | 318.90 <sup>(7)</sup>   | N/A  | N/A  | N/A   | 9,753.64                      | 7.32%                                       |
| Actual 1999 | 9,737.70 <sup>(8)</sup>   | 643.82 <sup>(12)</sup>    | 10.52% <sup>(8)</sup> | 6.77% <sup>(12)</sup>            | 25.50 <sup>(8)</sup>  | 321.90 <sup>(8)</sup>   | N/A  | N/A  | N/A   | 10,728.92                     | 10.00%                                      |
| Actual 2000 | 10,831.53 <sup>(9)</sup>  | 689.78 <sup>(12)</sup>    | 11.23% <sup>(9)</sup> | 7.14% <sup>(12)</sup>            | 30.20 <sup>(9)</sup>  | 324.30 <sup>(9)</sup>   | N/A  | N/A  | N/A   | 11,875.81                     | 10.69%                                      |
| Actual 2001 | 11,160.73 <sup>(10)</sup> | 753.29 <sup>(12)</sup>    | 3.04% <sup>(10)</sup> | 9.21% <sup>(12)</sup>            | 28.10 <sup>(10)</sup> | 329.40 <sup>(10)</sup>  | N/A  | N/A  | N/A   | 12,271.52                     | 3.33%                                       |
| 2002        | 11,189.10 <sup>(11)</sup> | 733.56 <sup>(12)</sup>    | 0.25% <sup>(11)</sup> | -2.62% <sup>(12)</sup>           | 24.90 <sup>(11)</sup> | 323.00 <sup>(11)</sup>  | 70.03  | 0.00   | 70.03   | 12,270.56                     | -0.01%                                      |
| 2003        | 11,428.70 <sup>(11)</sup> | 835.81 <sup>(12)</sup>    | 2.14% <sup>(11)</sup> | 13.94% <sup>(12)</sup>           | 13.60 <sup>(11)</sup> | 320.00 <sup>(11)</sup>  | 68.39  | 2.82   | 71.21   | 12,598.11                     | 2.67%                                       |
| 2004        | 12,048.20 <sup>(11)</sup> | 889.70 <sup>(12)</sup>    | 5.42% <sup>(11)</sup> | 6.45% <sup>(12)</sup>            | 12.60 <sup>(11)</sup> | 320.00 <sup>(11)</sup>  | 66.61  | 5.64   | 72.25   | 13,270.50                     | 5.34%                                       |
| 2005        | 12,602.40 <sup>(11)</sup> | 921.86 <sup>(12)</sup>    | 4.60% <sup>(11)</sup> | 3.61% <sup>(12)</sup>            | 12.60 <sup>(11)</sup> | 320.00 <sup>(11)</sup>  | 60.67  | 5.64   | 66.31   | 13,856.86                     | 4.42%                                       |
| 2006        | 13,225.20 <sup>(11)</sup> | 947.36 <sup>(12)</sup>    | 4.94% <sup>(11)</sup> | 2.77% <sup>(12)</sup>            | 12.60 <sup>(11)</sup> | 320.00 <sup>(11)</sup>  | 57.58  | 5.64   | 63.23   | 14,505.16                     | 4.68%                                       |
| 2007        | 13,946.60 <sup>(11)</sup> | 978.94 <sup>(12)</sup>    | 5.45% <sup>(11)</sup> | 3.33% <sup>(12)</sup>            | 12.60 <sup>(11)</sup> | 320.00 <sup>(11)</sup>  | 55.52  | 5.64   | 61.16   | 15,258.14                     | 5.19%                                       |
| 2008        | 14,700.10 <sup>(11)</sup> | 1,011.51 <sup>(12)</sup>  | 5.40% <sup>(11)</sup> | 3.33% <sup>(12)</sup>            | 12.60 <sup>(11)</sup> | 320.00 <sup>(11)</sup>  | 55.04  | 5.64   | 60.68   | 16,044.21                     | 5.15%                                       |
| 2009        | 15,508.61 <sup>(17)</sup> | 1,063.06 <sup>(13)</sup>  | 5.50% <sup>(17)</sup> | 5.10% <sup>(13)</sup>            | 12.60 <sup>(16)</sup> | 320.00 <sup>(16)</sup>  | 49.14  | 5.64   | 54.79   | 16,904.26                     | 5.36%                                       |
| 2010        | 16,361.58 <sup>(17)</sup> | 1,117.22 <sup>(13)</sup>  | 5.50% <sup>(17)</sup> | 5.10% <sup>(13)</sup>            | 12.60 <sup>(16)</sup> | 320.00 <sup>(16)</sup>  | 43.63  | 5.64   | 49.27   | 17,811.40                     | 5.37%                                       |
| 2011        | 17,261.47 <sup>(17)</sup> | 1,174.15 <sup>(13)</sup>  | 5.50% <sup>(17)</sup> | 5.10% <sup>(13)</sup>            | 12.60 <sup>(16)</sup> | 320.00 <sup>(16)</sup>  | 39.16  | 5.64   | 44.81   | 18,768.22                     | 5.37%                                       |

(1) Annual Report of the Comptroller, FY 1992.

(2) Annual Report of the Comptroller, FY 1993.

(3) Annual Report of the Comptroller, FY 1994.

(4) Annual Report of the Comptroller, FY 1995.

(5) Annual Report of the Comptroller, FY 1996.

(6) Annual Report of the Comptroller, FY 1997.

(7) Annual Report of the Comptroller, FY 1998.

(8) Annual Report of the Comptroller, FY 1999.

(9) Annual Report of the Comptroller, FY 2000.

(10) Annual Report of the Comptroller (Preliminary), FY 2001.

(11) The December Standard and Economy.com Alternative General Fund Forecast for FY 2002-2008, dated December 19, 2001.

(12) Department of Motor Vehicles.

(13) FY 2009 - 2011 growth rate derived using average TTF 10-year (1999-2008) growth rate.

(14) Total Revenue = GF + TTF + ABC + Lottery Revenues.

(15) Blended Revenue Growth Rate = (Current FY Total Revenue / Prior FY Total Revenue) - 1.

(16) FY 2009 - 2011 based on FY 2002 - 2008 Forecasts per December Standard and Economy.com Alternative General Fund Forecast, December 19, 2001).

(17) Flat revised growth rate of 5.50% beyond 6 year official forecast period per Department of Taxation.



# Debt Capacity Model

## Annual Debt Service Requirements and Other Long-Term Obligations Outstanding As of June 30, 2001 Plus Fiscal Year 2002 Issuance Through December 31, 2001 (Dollars in Thousands)

| Fiscal Year<br>Ending<br><u>June 30</u> | General<br>Obligation Debt<br>Sections 9(a),<br><u>9(b) and 9(c)</u> | Other<br>Tax-Supported<br>Debt<br><u>Section 9(d)</u> | Capital Lease<br>and<br>Installment<br><u>Purchases</u> | Regional Jail<br><u>Reimbursements</u> | Debt Service<br>on<br>Planned<br><u>Issuances</u> | Debt Service<br>on<br>Unallocated<br><u>Debt Capacity</u> | GRAND<br><u>TOTAL</u> |
|---|--|---|---|--|---|---|-----------------------|
| 2001                                    | \$0  | \$0   | \$0   | \$0                                    | \$0   | \$0   | \$0                   |
| 2002                                    | 129,040  | 370,302   | 44,830  | 3,630                                  | 3,568   | 0   | \$551,370             |
| 2003                                    | 125,897  | 343,625   | 44,830  | 3,637                                  | 27,609  | 55,725  | \$601,323             |
| 2004                                    | 122,566  | 324,512   | 44,830  | 3,634                                  | 32,637  | 111,449   | \$639,628             |
| 2005                                    | 115,066  | 292,609   | 44,830  | 3,634                                  | 32,638  | 167,174   | \$655,950             |
| 2006                                    | 110,414  | 244,439   | 44,830  | 3,635                                  | 37,437  | 222,898   | \$663,654             |
| 2007                                    | 106,721  | 244,419   | 44,830  | 3,633                                  | 23,648  | 278,623   | \$701,873             |
| 2008                                    | 104,609  | 244,343   | 44,830  | 3,630                                  | 23,648  | 334,348   | \$755,408             |
| 2009                                    | 97,134   | 248,502   | 44,830  | 3,634                                  | 23,648  | 390,072   | \$807,820             |
| 2010                                    | 89,980   | 232,157   | 44,830  | 3,632                                  | 23,648  | 445,797   | \$840,044             |
| 2011                                    | <u>83,867</u>  | <u>225,412</u>  | <u>44,830</u>   | <u>3,635</u>                           | <u>23,648</u>                                     | <u>501,521</u>  | <u>\$882,913</u>      |
| TOTAL                                   | <u>\$1,085,293</u>   | <u>\$2,770,320</u>                                    | <u>\$448,298</u>  | <u>\$36,334</u>                        | <u>\$252,131</u>                                  | <u>\$2,507,607</u>  | <u>\$7,099,984</u>    |

## The Debt Capacity Model

### Parameters of the Model

- (1) **Revenues** includes all general fund revenues (exclusive of transfers), ABC and Lottery profits transferred to the general fund and state tax revenues in the Transportation Trust Fund.
- (2) **Base Capacity to Pay Debt Service** is calculated as the product of the Debt Capacity Maximum Ratio and Revenues. [Column 2 = Column 1 x .05]
- (3) **9(c) Revenues** represents 9(c) revenue equal to debt service on outstanding 9(c) debt.
- 4) **Total Capacity to Pay Debt Service** is calculated as the Base Capacity plus 9(c) revenues equivalent to 9(c) debt service. It represents the maximum level of debt service allowed given the 5% debt service/revenues ratio. [Column 4 = Column 1x 5%+ Column 3]
- (5) **Annual Payments for Debt Service on Debt Issued** is actual debt service on all tax-supported debt outstanding at the end of the most recent fiscal year and on any issuance to date since fiscal year end.
- (6) **Annual Payments for Debt Service on All Planned Debt Issuances** is the estimated amount of debt service for currently authorized and unissued tax-supported debt assumed to be issued within the ten-year period.
- (7) **Net Capacity to Pay Debt Service** is Total Capacity to Pay Debt Service less Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances. [7= 4-5-6]

## **The Debt Capacity Model (continued)**

### **Parameters of the Model**

- (8) **Amount of Additional Debt that May Be Issued** is the amount of additional tax-supported debt (above and beyond that which is currently authorized but unissued) that may be issued in any given year without exceeding Overall Capacity to Pay Debt Service.
- (9) **Debt Service on the Amount of Additional Debt that May Be Issued** is the estimated amount of debt service for the Additional Debt that may be Authorized and Issued.
- (10) **Remaining Capacity to Pay Debt Service** is Net Capacity to Pay Debt Service less Debt Service on the Amount of Additional Debt that may be Authorized and Issued. [10=7-9]
- (11) **Total Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued, Annual Payments for Debt Service on All Planned Debt Issuances and Debt Service on the Amount of Additional Debt that may be Authorized and Issued, divided by Revenues and 9(c) Revenues. [11=(5+6+9)/1+3].
- Model solves for annual capacity, above and beyond authorized amounts assumed issued for the next ten fiscal years at the 5% debt service/revenues level over a ten-year period.  
  
\$628.31 million is equal annual issuance capacity.
    - debt service/revenues ratio rises to a maximum of 4.79% in FY 2004
    - projected issuance never reaches 5% capacity and two years excess capacity is maintained at end of ten-year period
  - Two years of excess capacity is a function of conservatism.

# **Exhibit B**

## **The Debt Capacity Model Sensitivity Analysis**

## **The Debt Capacity Model Sensitivity Analysis**

### **Excess Capacity Sensitivity**

- Model solution provides for two years of excess capacity remaining at end of the 10-year period which results in the following annual debt capacity:

**2 Year Excess Capacity** **\$628.31 million**

- If the Model solution is altered to reduce the two years of excess capacity, the following annual debt capacity figures are produced:

**1 Year Excess Capacity** **\$685.43 million**

**No Excess Capacity** **\$ 691.58 million\***

### **Revenue Sensitivity**

- If the Model solution is altered to increase or decrease revenues, the following incremental annual debt capacity changes are produced:

**For each change of \$100 million per year** **\$ 5.22 million**

**For each 1% change per year of  
General Fund Revenues** **\$ 9.01 million**

### **Interest Rate Sensitivity**

- If the Model solution is altered to change interest rates, the following annual debt capacity figures are produced:

**Add 100 basis points to rate** **\$ 580.35 million**

**Subtract 100 basis points from rate** **\$ 682.39 million**

\* Since debt service as a percentage of revenue peaks at 4.99% in fiscal year 2009, issuance capacity remains at \$691.58 million through fiscal year 2009. Capacity increases slightly in 2010 allowing issuance of \$772.6 million, however due to the 5% limitation, \$489.7 million of excess capacity remains beyond the 10 year period of the model.

# **Exhibit C**

## **Background Information**

## **Background**

Creation of the Debt Capacity Advisory Committee was recommended in *An Assessment of Debt Management in Virginia*, December 1990. The Committee was originally created in September 1991, by Executive Order #38. The Committee was subsequently codified under Chapter 43 of the 1994 Virginia Acts of Assembly, as amended.

The Committee's mandate is to annually review the size and condition of the Commonwealth's tax-supported debt and submit to the Governor and the General Assembly before January 1, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium (Section 2.2-2714 Code of Virginia). This estimate is advisory and in no way binds the Governor or the General Assembly.

In developing its annual estimate and in preparing its annual report, the Committee shall, at a minimum, consider:

- the amount of tax-supported debt that, during the next fiscal year and annually for the following nine fiscal years, will be outstanding and the amount of tax-supported debt which has been authorized but not yet issued;
- a projected schedule of affordable, state tax-supported debt authorizations for the next biennium;
- projected debt service requirements during the next fiscal year and annually for the following nine fiscal years based on existing outstanding debt, previously authorized but unissued debt, and projected debt authorizations;
- the criteria that recognized bond rating agencies use to judge the quality of Commonwealth bond issues;

### **Background (Continued)**

- any other factor that is relevant to (i) the ability of the Commonwealth to meet its projected debt service requirements for the next two fiscal years; (ii) the ability of the Commonwealth to support additional debt service in the upcoming biennium; (iii) the requirements of the statewide capital plan; and (iv) the interest rate to be borne by, the credit rating on, or any other factor affecting the marketability of such bonds; and
- the effect of authorizations of new tax-supported debt on each of the considerations listed above.

The Committee is also required to annually review the amount and condition of moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability and make recommendations to ensure the prudent use of such obligations.

In addition, the Committee is also required to review the amount and condition of Commonwealth obligations that are not general obligations or moral obligations, and when appropriate, recommend limits on such additional obligations to the Governor and to the General Assembly.

During the 1997 General Assembly Session, two specific sports facility authorities were provided access to certain additional tax revenues. The legislation provides that if the State Treasurer, with the concurrence of the Committee, finds that obligations issued to finance such facilities would be tax-supported debt or impact the Commonwealth's credit ratings, the obligations must be authorized by the General Assembly. The provisions sunset on January 1, 2002.

All Commonwealth debt-issuing agencies, institutions, boards, and authorities are required to provide to the State Treasurer quarterly reports containing information which the Committee deems necessary for it to carry out its required duties.



## **Review of the December 2000 Report**

The Committee issued its tenth annual report to the Governor and the General Assembly on December 22, 2000. The report addressed the following issues:

- Reaffirmed the use of debt service on tax-supported debt and related long-term obligations as a percentage of revenues as the debt affordability measure used in Virginia's Debt Capacity Model. In addition, reaffirmed a maximum ratio of debt service as a percentage of revenues of 5%.
- Concluded that the Commonwealth could issue approximately \$698 million of tax-supported debt in each year from fiscal year 2002 through fiscal year 2010 above and beyond tax-supported debt already outstanding or authorized, while still holding the ratio to tax-supported debt service as a percentage of revenues below 5%.
- Recommended that a maximum of \$698 million of tax-supported debt could be prudently authorized by the 2001 and 2002 Sessions of the General Assembly, representing a maximum authorized amount of \$1.396 billion for the biennium.
- Made no recommendation as to which projects, if any, should be chosen for debt financing or how they should be prioritized. Reaffirmed that this decision was most appropriately made through the budgetary and legislative processes.
- Continued to recommend that Cabinet Secretaries work with the Secretary of Finance to develop a proposal for rescinding unnecessary authorizations for consideration in the 2001 General Assembly Session.

## **Review of the December 2000 Report (Continued)**

- Continued to recommend the use of financing processes which promote the lowest possible cost of funds to the Commonwealth by utilizing traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority whenever appropriate.
- Reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reconfirmed that the Commonwealth is not unique in its use of moral obligation debt, as a number of other state issuers utilize the moral obligation pledge. The Committee continued to review the types of programs, statutory caps, outstanding amounts and other financial data for certain other states that utilize moral obligation bond programs and compared these to Commonwealth issuers. The Committee recommended no changes to either program and recommended not change to levels of statutory caps for two of the three issuers currently utilizing the moral obligation pledge of the Commonwealth. However the committee recognized the need of the Virginia Resources Authority to increase its statutory limit and that the increase was consistent with prudent debt management practices.

# Commonwealth Debt

(Dollars in Thousands)

|   | As of<br>June 30, 2001 | As of<br>June 30, 2000 |
|---|------------------------|------------------------|
| <b>Tax-Supported Debt</b>                                     |                        |                        |
| 9(b) General Obligation <sup>(1)</sup>                        | \$ 486,310             | \$ 520,705             |
| 9(c) General Obligation - Higher Education                    | 345,154                | 380,332                |
| 9(c) General Obligation - Transportation                      | 126,319                | 134,144                |
| 9(c) General Obligation - Parking Facilities                  | 10,325                 | 11,010                 |
| Commercial Paper  | 0                      | 0                      |
| Commonwealth Transportation Board                             | 916,835                | 943,625                |
| Virginia Public Building Authority                            | 994,801                | 1,049,984              |
| Virginia Port Authority                                       | 94,060                 | 102,655                |
| Virginia College Building Authority - Equipment               | 31,710                 | 58,615                 |
| Virginia College Building Authority - 21st Century            | 258,120                | 213,845                |
| Innovative Technology Authority                               | 11,120                 | 11,656                 |
| Virginia Biotechnology Research Park Authority                | 28,235                 | 29,195                 |
| Transportation Notes Payable                                  | 12,325                 | 12,325                 |
| Capital Leases  | 242,820                | 242,427                |
| Installment Purchases   | 67,499                 | 54,681                 |
| Regional Jail Reimbursement Agreements                        | 31,017                 | 59,671                 |
| Compensated Absences <sup>(2)</sup>                           | 484,330                | 462,387                |
| Pension Liability <sup>(2)</sup>                              | 284,081                | 263,038                |
| Virginia Public Broadcasting Board                            | 23,840                 | 0                      |
| Industrial Development Authority Obligations <sup>(3)</sup>   | 42,490                 | 0                      |
| Other Liabilities <sup>(2)</sup>                              | 20,104                 | 5,318                  |
| Total Tax Supported Debt                                      | \$ 4,511,495           | \$ 4,555,613           |
| <b>Debt Not Supported By Taxes <sup>(2)</sup></b>             |                        |                        |
| <b>Moral Obligation / Contingent Liability Debt</b>           |                        |                        |
| Virginia Resources Authority                                  | \$ 442,478             | \$ 454,179             |
| Virginia Housing Development Authority                        | 1,357,976              | 1,438,838              |
| Virginia Public School Authority - 1991 Resolution            | 459,772                | 487,282                |
| Virginia Public School Authority - 1997 Resolution            | 994,640                | 769,620                |
| Virginia Public School Authority - Equipment Technology Notes | 55,765                 | 0                      |
| Total Moral Obligation/Contingent Liability Debt              | \$ 3,310,631           | \$ 3,149,919           |
| <b>Other Debt Not Supported By Taxes</b>                      |                        |                        |
| 9(d) Higher Education   | \$ 360,535             | \$ 376,113             |
| Virginia College Building Authority - Pooled Bond Program     | 250,170                | 172,575                |
| Virginia College Building Authority - Private College Program | 268,490                | 273,440                |
| Virginia Public School Authority - 1987 Resolution            | 332,090                | 381,450                |
| Virginia Public School Authority - Stand Alone Program        | 144,110                | 147,615                |
| Virginia Public School Authority - Equipment Notes            | 85,695                 | 119,475                |
| Virginia Public School Authority - 1990 Insured Resolution    | 20,025                 | 21,920                 |
| Virginia Housing Development Authority                        | 4,352,311              | 4,002,449              |
| Virginia Port Authority                                       | 93,325                 | 94,975                 |
| Virginia Equine Center  | 5,645                  | 6,305                  |
| Virginia Commonwealth University Health System Authority      | 82,260                 | 87,480                 |
| Hampton Roads Sanitation District                             | 161,800                | 166,860                |
| Virginia Biotechnology Research Park Authority                | 15,745                 | 16,240                 |
| Virginia Resources Authority                                  | 219,865                | 0                      |
| Pocahontas Parkway Association Bonds                          | 405,460                | 393,238                |
| Federal Highway Reimbursement Anticipation Notes              | 375,000                | 0                      |
| Notes Payable   | 260,221                | 176,016                |
| Other Long-Term Debt  | 27,090                 | 28,581                 |
| Total Other Debt Not Supported By Taxes                       | \$ 7,459,837           | \$ 6,464,732           |
| Total Debt of the Commonwealth                                | \$ 15,281,963          | \$ 14,170,264          |

Source: Department of the Treasury and Department of Accounts

<sup>(1)</sup> Voter approved

<sup>(2)</sup> NOT INCLUDED IN DEBT CAPACITY MODEL

<sup>(3)</sup> Newport News Industrial Development Authority for Virginia Advanced Shipbuilding & Carrier Integration Center

**Tax-Supported Debt Issuances in Fiscal Year 2002  
As of December 31, 2001**

| <u><b>Issuer</b></u>   | <u><b>Date Issued</b></u> | <u><b>Amount</b></u>        |
|--|---------------------------|-----------------------------|
| Virginia Biotechnology<br>Research Park Authority,<br>Commonwealth of Virginia Lease<br>Revenue Bonds (Consolidated<br>Laboratories Project)<br>Series 2001          | August 2, 2001            | \$ 60,010,000               |
| Virginia Public Building<br>Authority, Public Facilities<br>Revenue Bonds, Series 2001A  | August 22, 2001           | \$ 35,830,000               |
| Commonwealth Transportation<br>Board Commonwealth of Virginia<br>Transportation Revenue Bonds<br>(Northern Virginia Transportation<br>District Program) Series 2001A | October 10, 2001          | \$ 58,650,000               |
| Commonwealth Transportation<br>Board Commonwealth of Virginia<br>Transportation Revenue Bonds<br>(U.S. Route 58 Corridor Development<br>Program) Series 2001B        | October 10, 2001          | \$102,165,000               |
| Commonwealth of Virginia<br>General Obligation Bonds,<br>Series 2001   | November 1, 2001          | \$ 65,635,000               |
| <b>TOTAL</b>   |                           | <u><b>\$322,290,000</b></u> |

# **Commonwealth Debt**

## **Outstanding Tax-Supported Debt As of December 31, 2001\* (Dollars in Thousands)**

### ***Tax-Supported Debt Included in the Model*** <sup>(1)</sup>

|  |             |             |
|--|-------------|-------------|
| 9(b) General Obligation Bonds                                |             | \$486,310   |
| Bonds  | \$486,310   |             |
| Commercial Paper   | 0           |             |
| 9(c) Revenue-Supported GOBs                                  |             | \$547,433   |
| Higher Education   | \$410,789   |             |
| Transportation   | 126,319     |             |
| Parking Facilities   | 10,325      |             |
| Commercial Paper   | 0           |             |
| 9(d) Obligations   |             | \$2,945,092 |
| Transportation Board   | \$1,077,650 |             |
| Virginia Public Building Authority <sup>(2)</sup>            | 966,131     |             |
| Port Authority   | 94,060      |             |
| Virginia College Building Authority Equipment                | 31,710      |             |
| Virginia College Building Authority 21st Century             | 258,120     |             |
| Bonded Capital Leases and Lease Revenue Bonds <sup>(3)</sup> | 330,560     |             |
| Regional Jail Reimbursement Agreements                       | 31,017      |             |
| Transportation Notes Payable                                 | 12,325      |             |
| Capital Leases   | 76,020      |             |
| Installment Purchases  | 67,499      |             |

|  |  |                    |
|--|--|--------------------|
| Total Tax-Supported Debt Included in Model |  | <u>\$3,978,835</u> |
|--|--|--------------------|

### ***Additional Long-Term Obligations Included in the CAFR***

#### ***But Not Included in the Model***

|   |           |           |
|---|-----------|-----------|
| Long-Term Obligations Not Included in Model |           | \$788,515 |
| Compensated Absences                        | \$484,330 |           |
| Pension Liability                           | 284,081   |           |
| Other Long-Term Liabilities                 | 20,104    |           |

|  |  |                           |
|--|--|---------------------------|
| Total Tax-Supported Debt (CAFR Plus Subsequent Issuance) |  | <u><u>\$4,767,350</u></u> |
|--|--|---------------------------|

(1) June 30, 2001\* Balance Plus Fiscal Year 2002 Issuances and principal payments through December 31, 2001.

(2) Net of unamortized discount

(3) Bonded Capital Leases include the capital lease obligations supporting lease revenue bonds for Innovative Technology Authority, Virginia Biotechnology Research Park Authority, Big Stone Gap Redevelopment and Housing Authority, Norfolk Redevelopment and Housing Authority, Brunswick County Industrial Development Authority, Norfolk Industrial Development Authority, Newport News Industrial Development Authority and the Industrial Development Authority of the City of Harrisonburg.

\*Preliminary and unaudited

## **Commonwealth Debt**

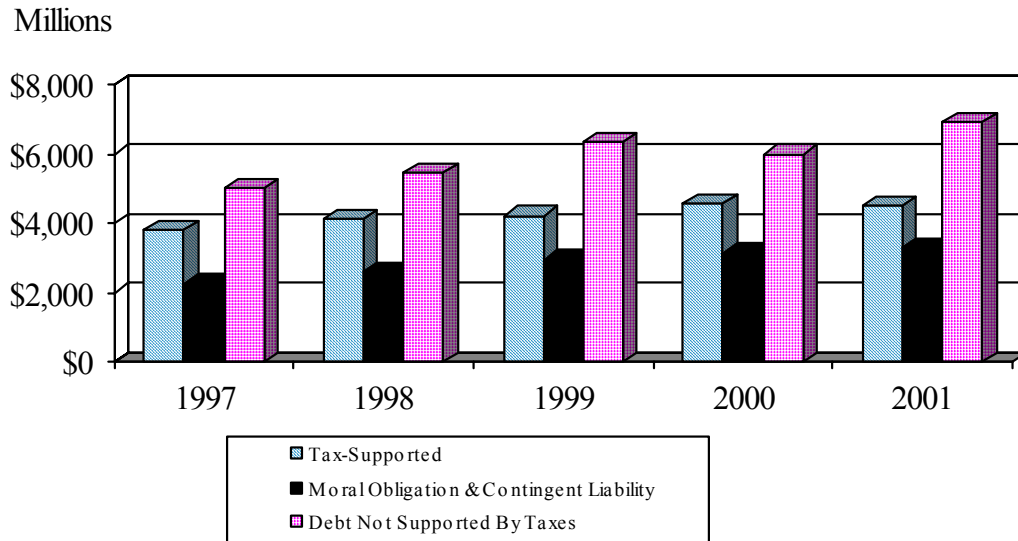
### **Authorized But Unissued Tax-Supported Debt as of December 31, 2001\* Dollars in Thousands**

|   |                          |
|---|--------------------------|
| <b>Section 9(b) Debt:</b>   | \$ <u>0</u>              |
| <b>Section 9(c) Debt:</b>   |                          |
| Higher Education Institutions Bonds   | \$ <u>66,128</u>         |
| <b>Section 9(d) Debt:</b>   |                          |
| Transportation Contract Revenue Bonds (Rt. 28)                                      | \$ 54,092                |
| Transportation Revenue Bonds (Rt. 58)   | 0                        |
| Transportation Revenue Bonds (Northern Virginia<br>Transportation District Program) | 117,328                  |
| Virginia Public Building Authority - Projects                                       | 44,131                   |
| Virginia Public Building Authority - Jails  | 7,816                    |
| Virginia College Building Authority - 21st Century Equipment                        | 49,847                   |
| Virginia College Building Authority - 21st Century Projects                         | 0                        |
| Subtotal 9(d) Debt:   | \$ <u>273,214</u>        |
| <b>Total</b>  | \$ <u><u>339,342</u></u> |

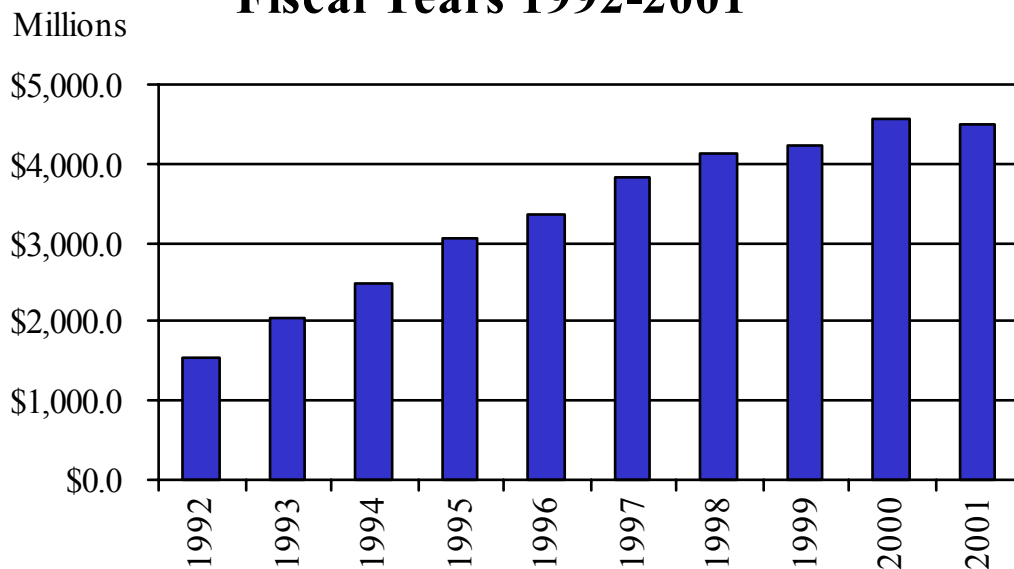
\*Preliminary and unaudited

# Commonwealth Debt

## **Outstanding Commonwealth Debt Fiscal Years 1997-2001**



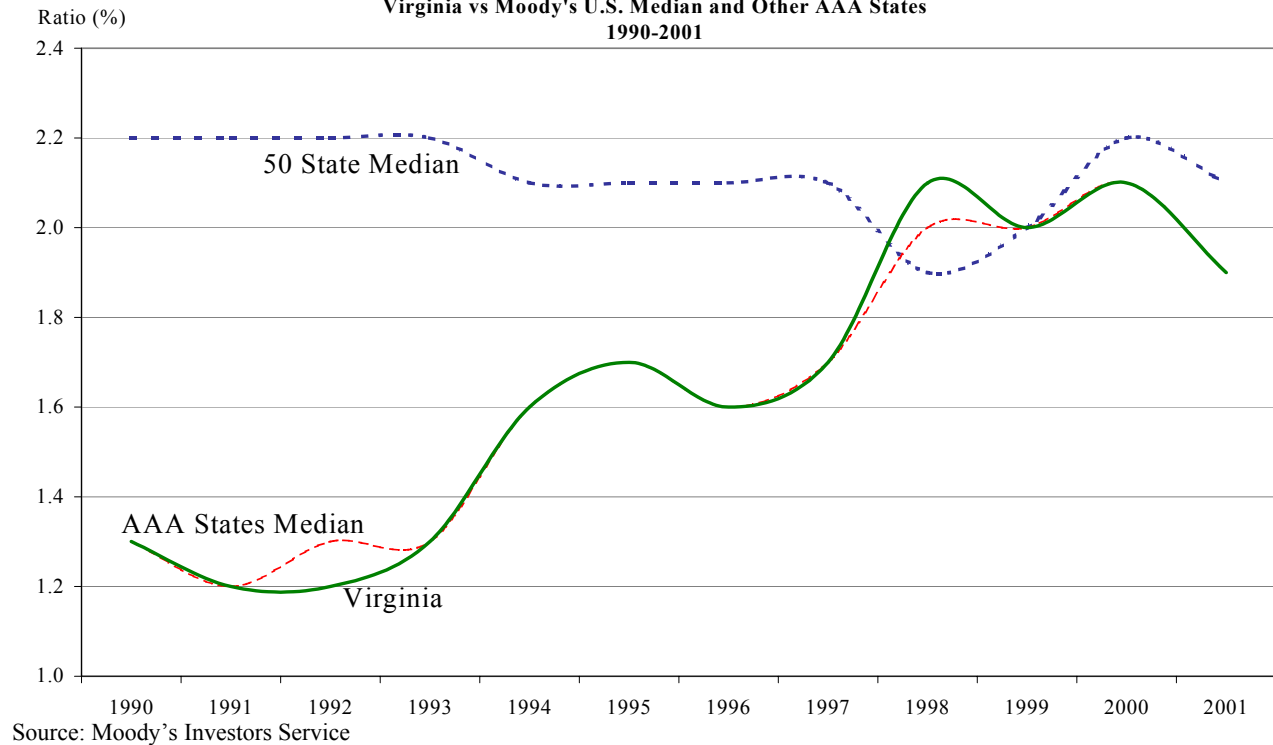
## **Outstanding Tax-Supported Debt Fiscal Years 1992-2001**



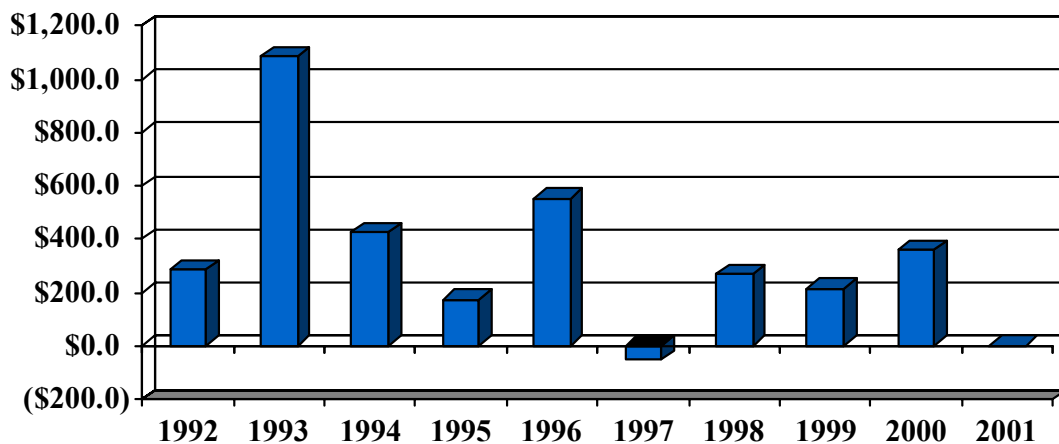
1995 through 2001 also contain compensated absences and pension liabilities, not reflected in 1992 through 1994 balances.  
Source: Commonwealth Annual Financial Reports

# Commonwealth Debt

**Net Tax-Supported Debt As Percentage of Personal Income  
Virginia vs Moody's U.S. Median and Other AAA States  
1990-2001**



**Tax-Supported Debt Authorizations\*  
Fiscal Years 1992-2001**

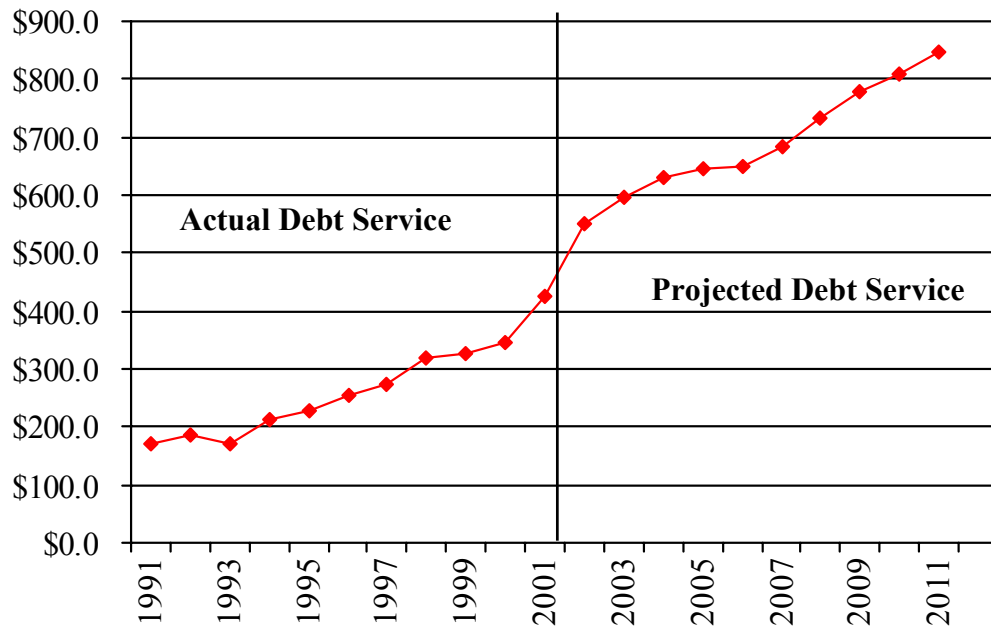


\* Does not include certain rescinded authorizations and other adjustments.

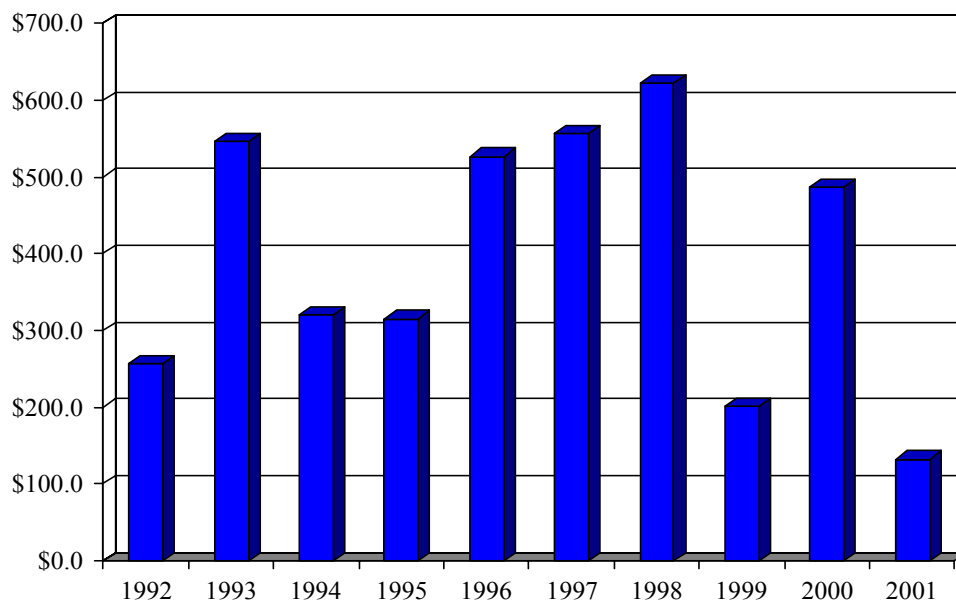


## **Commonwealth Debt**

### **Tax-Supported Debt Service: Actual and Projected Fiscal Years 1991 - 2011**



### **Trend in Tax-Supported Debt Issuance Fiscal Years 1992 - 2001**



# **AAA/Aaa/AAA State Debt Burdens** **1994 - 2001**

## **AAA/Aaa/AAA STATE DEBT BURDENS FROM 1994-2001 PROVIDED BY MOODY'S INVESTORS SERVICE**

### **Net Tax-Supported Debt per Capita (1)**

|                 | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> | <u>1997</u> | <u>1996</u> | <u>1995</u> | <u>1994</u> |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Delaware        | 1,616       | 1,544       | -           | -           | -           | -           | -           | -           |
| Maryland        | 819         | 895         | 953         | 849         | 875         | 832         | 828         | 754         |
| Georgia         | 679         | 697         | 679         | 647         | 669         | -           | -           | -           |
| Utah            | 634         | 693         | 705         | 560         | 301         | 310         | 271         | 248         |
| Minnesota       | 546         | 513         | 525         | 489         | 520         | -           | -           | -           |
| <b>VIRGINIA</b> | <b>537</b>  | <b>570</b>  | <b>516</b>  | <b>519</b>  | <b>414</b>  | <b>366</b>  | <b>370</b>  | <b>337</b>  |
| South Carolina  | 398         | 347         | 321         | 309         | 305         | 287         | -           | -           |
| North Carolina  | 340         | 343         | 273         | 229         | 151         | 142         | 146         | 100         |
| Missouri        | 288         | 245         | 233         | 238         | 276         | 255         | 232         | 236         |
| AAA Median      | 546         | 570         | 521         | 504         | 360         | 299         | 271         | 248         |
| AAA Average     | 651         | 650         | 526         | 480         | 439         | 365         | 369         | 335         |

(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

### **Net Tax-Supported Debt as Percent of Personal Income (2)**

|                 | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> | <u>1997</u> | <u>1996</u> | <u>1995</u> | <u>1994</u> |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Delaware        | 5.5         | 5.2         | -           | -           | -           | -           | -           | -           |
| Utah            | 2.8         | 3.3         | 3.6         | 3.1         | 1.7         | 1.8         | 1.7         | 1.6         |
| Maryland        | 2.6         | 3.0         | 3.3         | 3.1         | 3.3         | 3.4         | 3.5         | 3.3         |
| Georgia         | 2.6         | 2.8         | 2.9         | 2.9         | 3.1         | -           | -           | -           |
| <b>VIRGINIA</b> | <b>1.9</b>  | <b>2.1</b>  | <b>2.0</b>  | <b>2.1</b>  | <b>1.7</b>  | <b>1.6</b>  | <b>1.7</b>  | <b>1.6</b>  |
| Minnesota       | 1.8         | 1.9         | 2.0         | 1.9         | 2.2         | -           | -           | -           |
| South Carolina  | 1.8         | 1.6         | 1.6         | 1.6         | 1.6         | 1.6         | -           | -           |
| North Carolina  | 1.4         | 1.4         | 1.2         | 1.0         | 0.7         | 0.7         | 0.8         | 0.6         |
| Missouri        | 1.1         | 1.0         | 1.0         | 1.0         | 1.3         | 1.3         | 1.2         | 1.2         |
| AAA Median      | 1.9         | 2.1         | 2.0         | 2.0         | 1.7         | 1.6         | 1.7         | 1.6         |
| AAA Average     | 2.4         | 2.5         | 2.2         | 2.1         | 2.0         | 1.7         | 1.8         | 1.7         |

(2) Personal income is based on Census data from two years prior to each respective year's debt analyzed.

# **Exhibit D**

## **Moral Obligation Debt And Contingent Liability Debt**

## **Moral Obligation Debt**

- Definition of Moral Obligation Debt:

Moral obligation debt refers to a bond issue structure originally created in the 1960s and utilized primarily by state housing finance agencies or state-administered municipal bond banks as additional credit enhancement for revenue bond issues. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body "may", but is not legally required to, replenish the reserve fund.
- Rating agencies do not include in tax-supported debt ratios as long as bonds are self-supporting.
- Commonwealth Moral Obligation Debt Issuers:
  - Virginia Resources Authority
  - Virginia Housing Development Authority
    - Multi-Family Housing Bonds
  - Virginia Public School Authority - 1991 Resolution

## **Moral Obligation Debt**

| <b>Issuer</b>                          | <b>Statutory<br/>Limit</b> | <b>Outstanding<br/>At June 30, 2001</b> | <b>Available<br/>Authorization</b> |
|--|----------------------------|---|------------------------------------|
| Virginia Resources Authority           | \$ 900,000                 | \$ 442,478                              | \$ 457,522                         |
| Virginia Housing Development Authority | 1,500,000                  | 1,357,976                               | 142,024                            |
| Virginia Public School Authority       | <u>800,000</u>             | <u>459,772</u>                          | <u>340,228</u>                     |
| Total                                  | <u>\$3,200,000</u>         | <u>\$2,260,226</u>                      | <u>\$ 939,774</u>                  |

### **Dates upon which issuers expect to meet or exceed statutory borrowing cap:**

- VHDA: N/A - Alternative financing programs initiated in fiscal year 1999 do not require use of moral obligation. Does not expect to issue additional moral obligation debt.
- VRA: FY 2006 - Cap raised from \$550 million to \$900 million. Cap is not expected to be exceeded during the next biennium.
- VPSA: N/A - Created the 1997 Resolution for pooled bond program. Does not expect to issue additional debt under 1991 Resolution.

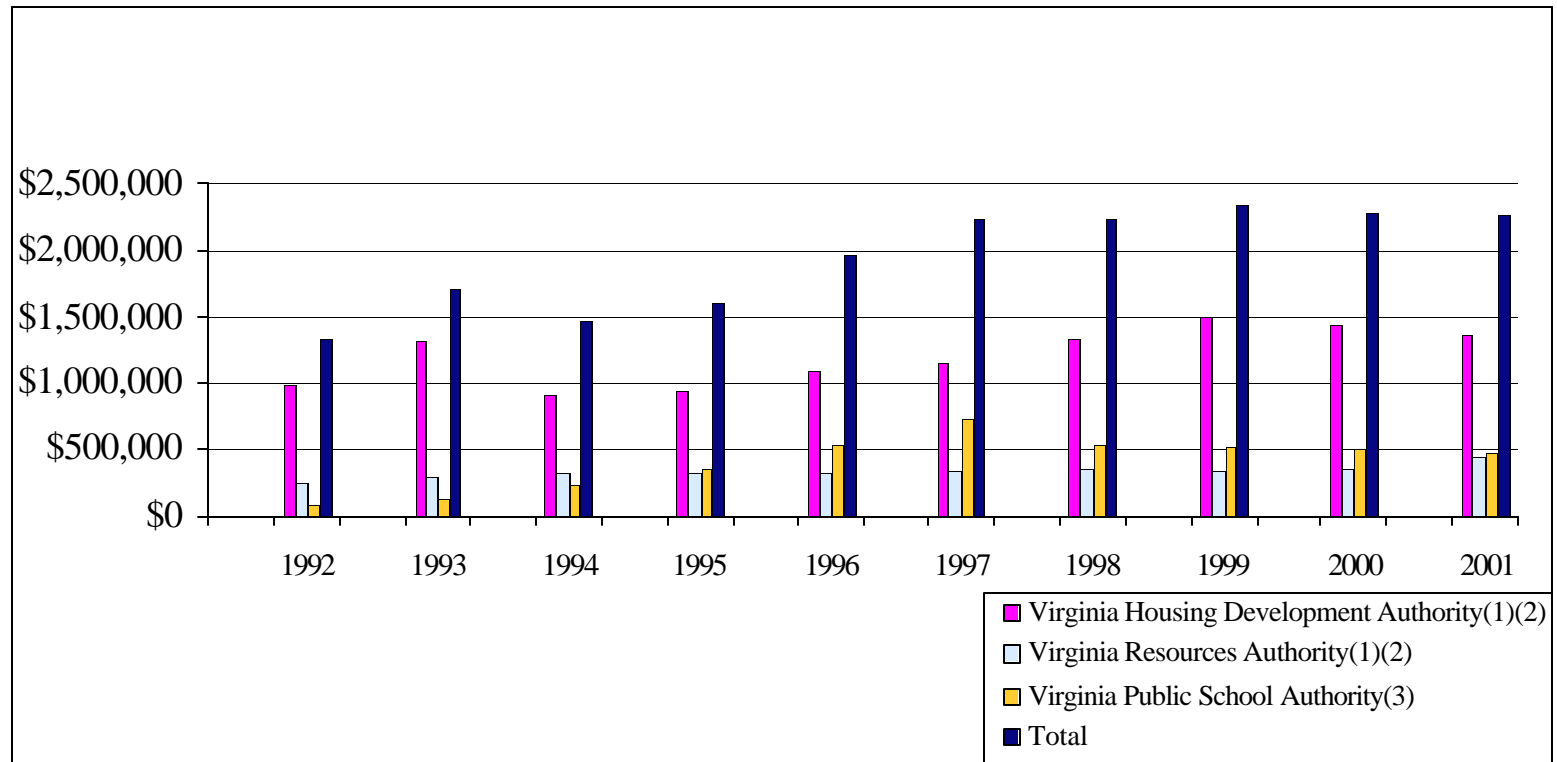
| <b>Bond Ratings:</b>       | <u>Fitch</u> | <u>Moody's</u> | <u>S&amp;P</u> |
|----------------------------|--------------|----------------|----------------|
| VHDA<br>(Multi-Family):    | N/R          | Aa1            | AA+            |
| VRA:                       | N/R          | Aa2            | AA             |
| VPSA<br>(1991 Resolution): | AA+          | Aa1            | AA+            |

# Moral Obligation Debt

## Outstanding Moral Obligation Debt

Fiscal Years 1991 - 2001

(Dollars in Thousands)



(1) 1991-1998 stated net of unamortized discounts, premiums and issuance costs.

(2) 1999-2001 stated at par.

(3) Stated at par.

## **Contingent or Limited Liability Debt**

- The only non-tax-supported debt obligations for which the Commonwealth has a contingent or limited liability are those which utilize a “sum sufficient appropriation” (SSA) to pay debt service.
- SSA was previously only used on certain revenue bonds issued by the Virginia Public School Authority under its 1997 Resolution. The Virginia Public School Authority had \$994,640,000 of 1997 Resolution bonds outstanding as of June 30, 2001.
- The 2000 Appropriation Act (Chapter 1073) authorized the use of SSA for certain revenue notes issued by the Virginia Public School Authority under its Educational Technology Program. The SSA was codified during the 2001 General Assembly session. The Virginia Public School Authority issued its first series of notes enhanced by the SSA in the Spring of 2001. Notes outstanding as of June 30, 2001 equal \$55,765,000.

| <b>Bond Ratings:</b>                  | <u>Fitch</u> | <u>Moody's</u> | <u>S&amp;P</u> |
|---------------------------------------|--------------|----------------|----------------|
| VPSA<br>(1997 Resolution):            | AA+          | Aa1            | AA+            |
| VPSA<br>(Equipment Technology Notes): | AA+          | Aa1            | AA+            |

## **Moral Obligation Debt**

### **Excess Capacity Sensitivity**

- The current Model solution provides for two years of excess capacity remaining at end of the 10-year period (excluding moral obligation debt) which results in annual debt capacity of \$628.31 million.

### **Total Moral Obligation Debt Sensitivity**

- If the Model solution is altered to assume conversion of the entire \$3.2 billion statutory cap for all moral obligation debt to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as percentage of revenues immediately rises above 5%, hitting a peak of 6.01% in fiscal year 2004, ultimately falling below 5% in fiscal year 2006. As a result, there would be no capacity to issue additional debt until fiscal year 2006.
  - \$ 124 million of additional debt could be issued in fiscal year 2006. Capacity increases in fiscal year 2007 allowing \$ 529 million of annual debt capacity to be available during fiscal years 2007 through 2009, increasing to \$685.62 million of issuance capacity in fiscal years 2010 and 2011.

### **VHDA Sensitivity**

If the Model solution is altered to assume conversion of the VHDA's total outstanding moral obligation debt (as of 6/30/01) to tax-supported debt, the following annual debt capacity figures are produced:

- Debt service as percentage of revenues peaks at 4.97% in fiscal year 2004.
- \$110.13 million of annual debt issuance capacity is available through fiscal year 2004. Capacity increases in fiscal year 2005 allowing \$628.31 million of annual debt issuance capacity to be available during fiscal years 2005 through 2011.



## **Moral Obligation Debt**

### **VRA Sensitivity**

- If the Model solution is altered to assume conversion of the VRA's total statutory moral obligation cap of \$900 million to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as percentage of revenues peaks at 4.97% in fiscal year 2004 allowing \$318 Million of debt issuance capacity through fiscal year 2004. \$615.70 million of annual debt issuance capacity becomes available for fiscal years 2005 through 2011.

### **VPSA Sensitivity**

If the Model solution is altered to assume conversion of the VPSA's total outstanding moral obligation debt (as of 6/30/01) to tax-supported debt, the following annual debt capacity figures are produced:

- \$516 million of debt issuance capacity is available, as debt service as percentage of revenues peaks at 4.96% in fiscal year 2004. Beyond the peak, annual debt issuance capacity of \$605.50 million is available through fiscal year 2011.

## **Sum Sufficient Appropriation Sensitivity**

### **VPSA Sensitivity**

If the Model solution is altered to assume conversion of the VPSA's total outstanding debt secured by a sum sufficient appropriation (as of 6/30/01) to tax-supported debt, the following annual debt capacity figures are produced:

- Debt service as percentage of revenues peaks at 4.97% in fiscal year 2004 allowing debt issuance capacity of \$246 million through fiscal year 2004. For fiscal years 2005 through 2011, debt issuance capacity would increase to \$614.80 million.

# **Exhibit E**

## **DCAC Model Revenue Treatment 9(c) General Obligation Debt Net Lottery Revenues Transfer**

## **9(c) General Obligation Debt DCAC Model Revenue Treatment**

### **Background**

Moody's "Debt Service Budget Burden" calculation, published in July 1993, is a measure of a state's annual cost of servicing the state's net tax-supported debt in relation to its revenue-generating activity. Moody's calculation does not include debt service on self-supporting debt. The report states that "Self-supporting debt-that is, debt paid solely from the revenues of an enterprise that charges a fee for services provided-is not included in net tax-supported debt because it has no claim on tax revenues."

Projects eligible for 9(c) General Obligation debt financing are revenue producing and also carry the full faith and credit of the Commonwealth. 9(c) projects are not voter approved. The Governor is required to certify both before the debt is authorized and again before it is issued that the anticipated net revenues to be pledged to the payment of debt service for 9(c) projects will be sufficient to meet such payments. (*Constitutional reference: Article X section 9(c).*)

Since first permitted by the 1971 Constitution, 9(c) debt has been used to finance several categories of revenue-producing capital projects:

- Transportation
- Parking Facilities
- Higher Education Auxiliary projects (e.g. dormitories, dining facilities, parking facilities)

The most recent series of 9(c) bonds was issued November 1, 2001. Among projects included in the issue were:

1. Residence Hall III-Christopher Newport University. The project was originally authorized for 9(c) financing in the amount of \$23.5 million and provides residential space for 660 student and residential advisors. Currently, student demand for residential housing exceeds capacity. In 1999-2000 the University began to lease space from a local motel to meet demand. The project's revenues will be provided primarily from room fees.
2. Bluestone Dormitories, Phase II-James Madison University. The project was authorized for 9(c) financing in the amount of \$8.2 million. The project represents phase II of renovations that began in 1994 to two residence halls on the historic portion of the JMU campus. The bonds will be supported by an \$8 increase in residential fees and other dorm revenues.

Other revenue-producing projects are financed by 9(d) debt. When not supported by tax revenues of the Commonwealth, these projects are not counted in the DCAC Model on either the revenue or the debt service side. Examples include 9(d) projects for institutions of higher education (which actually may generate revenue but not have been authorized as 9(c)) and Virginia Inland Terminals debt.

Prior to 1995, the DCAC Model included the debt service on 9(c) debt because it is tax-supported and ultimately carries the general obligation pledge of the Commonwealth. However, there was no provision to include any 9(c) revenues because these revenues are not a component of general fund revenues. The Committee noted in its December 1995 report to the Governor that it had determined to make a technical adjustment to the Model to “include Article X, Section 9(c) revenue in the Model in an amount sufficient to offset the associated debt service payment.” The Committee also noted that discussions with the bond rating agencies indicated that they would concur with the inclusion of the revenue stream in the Model.

Currently the DCAC Model includes as a separate revenue component an amount equal to 9(c) general obligation debt service. Actual 9(c) debt service is also factored into the DCAC Model.

### **Discussion**

The adjustment to the Model’s calculation made in 1995 did not accurately provide for the offset as desired by the Committee. The current treatment of 9(c) debt service distorts the Model’s calculation. The revenue side of the equation is increased by the debt service. However, the Model only counts 5% of that amount as being “available to pay debt service”. In other words, the Model only counts 5% of the 9(c) revenues against 100% of actual and authorized 9(c) debt service.

In order to analyze the effect of removing the penalty, the October 2001 Model was adjusted by offsetting the 9(c) revenues and 9(c) debt service in the Model. The net effect on the October 2001 Model solution was to increase debt capacity by \$44.4 million per year.

The Commonwealth’s financial advisor (Public Resources Advisory Group or PRAG) contacted the rating agencies in 1998 to discuss the DCAC Model’s treatment of 9(c) revenue. The three rating agencies have different approaches but PRAG reported that “clearly all three use a less detailed method to calculate the debt service ratio than that used by Treasury staff in compiling the DCAC report.” PRAG confirmed last week that the Commonwealth currently uses a more conservative approach than the rating agencies.

It is possible that a change in methodology at the current time would be viewed as a means to increase debt capacity.

### **Staff Recommendations**

Staff finds that the current treatment of 9(c) revenues and debt service is not consistent with the treatment of 9(d) debt that is not included in the Model.

Staff finds that the current treatment of 9(c) revenues and debt service does not provide an offset as desired by the Committee in 1995.

Staff finds that the current treatment of 9(c) revenues and debt service distorts the Model's calculation and creates a measure that is more conservative than, but inconsistent with, the standard Moody's calculation of debt affordability.

Staff recommends that a technical adjustment should be considered, not to increase debt capacity but to account fairly for 9(c) debt in the DCAC Model. The Commonwealth should not be penalized for utilizing debt programs that provide viable, efficient and cost-effective means of financing revenue-producing capital projects.

Staff recommends that 9(c) revenues and 9(c) debt service be treated as offsetting for the purposes of the model as long as the projects are self-supporting.

Should a project prove to be non self-supporting, staff recommends that the debt service be included in the model. This will ensure that any such debt depending upon the credit of the Commonwealth will be properly treated.

## **Net Lottery Revenues Transfer to the General Fund DCAC Model Revenue Treatment**

### **Background**

Moody's Debt Service Budget Burden calculation is a measure of a state's annual cost of servicing the state's net tax-supported debt in relation to its revenue-generating activity.

Moody's calculation includes as revenues "...revenues in dedicated highway or road funds, or education funds if these can be considered as part of the state's overall revenue system..."

The DCAC Model revenue component includes General Fund revenues, Transportation Trust Fund Revenues and transfers from Alcoholic Beverage Control Board and the State Lottery. This is consistent with the revenue components used by Moody's.

Moody's calculation provides a measure of an entity's overall ability to service debt. It is not an accounting measure.

The Lottery Proceeds Fund (the "Fund") consists of the net revenues of any lottery conducted by the Commonwealth. The use of Fund is currently restricted to public education including public education debt service. The General Assembly may determine other permitted uses of the Fund by a vote of four-fifths of the members voting in each house. (*Constitutional reference: Article X §A*).

All deposits to and appropriations from the Fund shall be accounted for and considered to be a part of the general fund of the state treasury (*Constitutional reference: Article X §7-A*)

Virginia's DCAC model is well regarded and widely emulated as a practical and effective management tool. For example, Sheshunoff's *State & Local Government Debt Issuance Manual*, a publication of Thomson Financial Service, includes a complete copy of Virginias DCAC report.

### **Discussion**

The Committee must determine if it wishes to adopt a measure of debt affordability based on actual funds available to pay debt service versus a measure based on revenues.

Items for Consideration:

- The Committee must determine if certain types of revenue should be excluded from the DCAC Model because their use is restricted in some way.
- Criteria would need to be developed in order to determine under what circumstances such revenue should be excluded.
- Other types of revenues may have to be considered for exclusion Would mandatory transfers also have to be considered?

The net effect on the October 2001 model solution of removing the Lottery transfers was to decrease debt capacity by \$15.9 million per year.

### **Staff Recommendations**

Staff finds that excluding Lottery transfers from the revenue component of the Model creates a measure that is more conservative than, but inconsistent with, the standard Moody's calculation of debt affordability.

If a measure based on actual funds available to pay debt service is adopted by the Committee, staff recommends that the Committee also reexamine the 5% affordability measure.

Staff believes that the current DCAC model is an effective and useable management planning tool. Staff recognizes that excluding certain revenues from the model produces a more conservative measure of debt affordability, but questions the practicality and value in doing so based on current information.